LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6882
BILL NUMBER: HB 1783

NOTE PREPARED: Jan 11, 2003
BILL AMENDED:

SUBJECT: Rural economic development tax credit.

FIRST AUTHOR: Rep. Heim
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill provides a credit against state tax liability for certain taxpayers who create at least four new full-time jobs at a site located in a city or town having a population of less than 20,000. The bill provides that the credit is equal to the greater of 20% of the total wages paid for the new jobs or 20% of the capital investment associated with the new jobs.

Effective Date: January 1, 2004.

Explanation of State Expenditures: *Summary:* Under the bill, the Department of State Revenue (DOR) would revise forms, instructions and computer programs in order to incorporate the rural economic development tax credit. These administrative should be absorbable within the Department's existing budget.

Explanation of State Revenues: *Summary:* Under the bill, state revenues would be reduced by an indeterminable amount. With an effective date of January 1, 2004, state revenues would most likely be affected for half of FY 2004 and beyond. Under the bill, a taxpayer would be able to claim a credit equal to either 20% of the total amount of wages paid for full-time created jobs or 20% of the total amount of capital investment associated with the creation of new full-time jobs in a taxable year.

The credit could be taken against the taxpayer's Adjusted Gross Income, Insurance Premiums, or Financial Institution Tax liability.

A taxpayer may only claim the credit if at least four new full-time jobs are created at a site located in a rural community (a city or town with a population less than 20,000.) The credit may not be claimed by a taxpayer creating a new job with a worker that has relocated from one employment site to another within Indiana.

If the credit exceeds a taxpayer's liability in a given tax year, the taxpayer may carry forward the excess credit for five successive taxable years. The credit must be applied to current year liability first, and is not refundable.

Additionally, a taxpayer may only claim the credit if the average wage paid by a taxpayer exceeds the countywide average.

Background: As of CY 2000, Indiana had 85 cities and 440 towns with a population less than 20,000. US Bureau of Census survey estimates from 1999 indicate that Indiana had 116,630 business firms and 146,528 business establishments. The estimate for firms and establishments with less than 300 employees was 112,280 firms and 119,810 establishments.

The CY2001 Indiana non-farm wage and salary disbursement per worker was $31,085. The CY2000 average annual pay for Indiana compiled by the US Bureau of Labor Statistics was $31,015. As an example, assuming an employer hired four new full-time employees at $31,085 per worker, the minimum average credit would be approximately ($31,085 * 20% * 4 = $24,868.) If 25 taxpayers qualified for the minimum average credit in a taxable year, state revenues could be reduced by $621,700 in a taxable year.

NOTE: The US Bureau of Census defines business firm as a business organization consisting of one or more domestic establishments in the same state and industry that were specified under common ownership or control. The firm and the establishment are the same for single-establishment firms. For each multi-establishment firm, establishments in the same industry within a state will be counted as one firm- the firm employment and annual payroll are summed from the associated establishments.

The Bureau defines a business establishment as a single physical location where business is conducted or where services or industrial operations are performed.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: US Bureau of Census; US Bureau of Economic Analysis.

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